The Co-operator

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PAPERS

FOR THE WORKER CO-OPERATIVES FORUM

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Worker Co-ops Are Different

Worker co-operatives are different. But then, how different are they and is it important anyway? These are not just abstract questions for they are being asked by the Ministerial Advisory Committee on Co-operation. There are divergent views on worker co-operatives and the view which prevails on the MACC well may determine how they will exist in the future and the form of any government assistance which may be forthcoming.

Worker co-operatives are very different from other forms of co-operative and this is reflected in significant ideological and practical differences. The basis of the difference is the membership of the co-operatives. The fact that workers as opposed to consumers own and control a co-operative necessarily changes the nature of co-operative democracy, both in principle and practice. A worker co-operative then, is a co-operative whose membership is restricted to workers in the co-operative and member control and benefits are based on personal rather than property rights. Worker co-operatives themselves should have the following characteristics:

1. membership is confined to workers in the co-operative;
2. all workers in the co-operative are eligible to become members;
3. there are no voluntary workers;
4. the equity contribution of the workers is minimal and the same;
5. any directors are also workers;
6. shares in the co-operative do not appreciate in value;
7. there are no preferential shares;
8. there is a limited or no distribution of surplus to worker members;
9. surplus is primarily allocated into reserve funds, co-operatives education and worker co-operative development;
10. on winding-up there is no distribution of residual assets to workers.

These characteristics are reinforced in Victoria under the Ministry of Employment and Training's Co-operative Development Program by the following measures:

- grants are available to subsidize operating costs
- loans are available at low interest rates
- co-operatives are not required to develop a high equity
- co-operative courses are provided at no cost to participants
- award wage subsidies are available for participants in the courses
- preference is given to unionised co-operatives and unionisation is encouraged
- co-operatives are required to develop enterprise plans.

In contrast, in NSW these provisions are not adopted. Quite simply, there are divergent interpretations between the Victorian and NSW programs on worker co-operative philosophy and practice. In NSW the emphasis is on the provision of loans at medium interest rates. Grants are not available to subsidize operating costs. There are no courses and therefore no commitment to the provision of wage subsidies for any education and training of a co-operative or business nature. Co-operatives are required to establish and maintain a high equity. Enterprise plans are not required.

Co-operativism is an ideology — a set of ideas about the philosophy, principles and practices of co-operation. While the fundamental principles of co-operation are common to all co-operatives, they are vague and general. Democratic administration is a co-operative principle. Yet the form of democracy codified in the Co-operation Act is exclusively representative, bureaucratic and hierarchical. These characteristics are not intrinsic to co-operative ideology. Democratic administration— a rhetorical assertion that is open to different interpretation and practices.

There are three broadly divergent views about co-operative ideology. First, there is the view that co-operatives are a preferable form of private enterprise. Second, there is the view that co-operatives are an alternative to private and State enterprises. Third, there is the view that co-operatives are a form of social ownership.

The differences between NSW and Victoria are relatively clear. The NSW position emphasises property rights and a distant relationship with the State. The Victorian position emphasises personal rights and a mature, reciprocal relationship between worker co-operatives and the State. The issue of equity is the touchstone of the difference

Continued on next page

Continued from previous page

between Victoria and New South Wales. Co-operative equity is central to the debate about personal and property rights. In summary, a low equity is consistent with personal rights. A high equity, however, is inconsistent with personal rights for it reinforces and reflects the importance of property rights.

The essential point of difference between a co-operative and a traditional business rests on the differing basis of personal and property rights. The traditional business emphasises property rights because the amount of property owned (the number of shares) determines the number of votes. There is no limit on the number of shares that can be owned and these shares can be publicly traded by their owners and there is no particular limit on personal gain potential other than the capital needs of the business In a worker co-operative, however, personal rights are emphasised because there is one vote per member irrespective of shareholding, there is a limit on the number of shares that can be owned, shares cannot be publicly traded, there is limited interest on shares do not appreciate.

Worker co-operatives in Victoria have tended to adopt a low equity. This has emerged as a de-facto practice rather than a considered policy. This has been practical because under its Co-operative Development Programme, the Ministry of Employment and Training has permitted and indeed encouraged a low equity.

In contrast, the worker co-operatives in NSW have adopted a high equity — with the encouragement of the Common Ownership Development Agency and the Common Ownership Finance Company.

It could be argued that requiring a high equity is a normalization process for worker co-operatives. Indeed, when Cruikshank Management Resources Pty Ltd reviewed the Ministry of Employment and Training's Co-operative Development Programme, it was scathingly critical of direct government funding of co-operatives and argued that this created dependency problems. Normalization then, is presumed to eliminate the problem of dependency.

In theory, this normalization is placing worker co-operatives in the market place — competing with other small business enterprises for private sector financing. Normalization, then, is requiring worker co-operatives to adopt the business characteristics of traditional business enterprises. Normalization, however, has ideological and methodological dimensions and consequences. Co-operatives need to adopt some aspects of the methodology but not the ideology of private enterprise.

In brief, there are three arguments for a high equity in worker co-operatives. First, it is necessary if the co-operatives wish to reduce their dependence on external lenders. Second, it provides the basis for obtaining loans from external lenders. Third, it creates and maintains the commitment of the workers in the co-operatives. Nominal equity is common for food and credit co-operatives and there is very good reason for this. Nominal equity is the only basis upon which co-operatives can effectively limit the role of capital. Once equity is no longer nominal, then the role of capital is no longer restricted. A high level reinforces the assumption of property rights and the expectation of personal gain. High equity requirements for worker co-operatives are based on pragmatic rather than co-operative considerations. Certainly, practicalities is a stated concern of the NSW programme.

Worker co-operatives do have difficulties raising external finance from State, private and co-operative sources. The important exception is the Mondragon co-operatives in the Basque region of Spain. NSW has also had some success in raising private sector finance. Both the Victorian and NSW programmes however, have depended on direct State funding.

It has also been argued that a high equity creates and maintains the commitment of workers. With their own funds invested in the co-operative, they are more likely to work harder and smarter for the viability of the co-operative. The argument then is a fairly traditional argument that traditional financiers, apply to small business owners — the expectation and requirement that the owner must place personal funds at risk as a guarantee against loan advances.

Members of consumer co-operatives are not required to provide a high equity. The inescapable conclusion therefore is that it is discriminatory to require worker co-operatives to provide a high individual equity. Victoria's low equity approach has validity provided the capitalisation requirements of worker co-operatives are being met. It may not be possible and practical to maintain a low equity. Funding of worker co-operatives in NSW is now based on a common ownership finance company controlled by the Co-operative Federation of NSW. As already noted, funding is based on a high equity. Race Mathews has argued:

"Co-operatives everywhere are obliged to look beyond government and meet major capital requirements through such mechanisms as raising loans from banks and other traditional sources, accepting external shareholders and making it a condition of membership that members should 'buy in' with an initial capital contribution, which can range as high as half a year's earnings."

But what has been done and what might be necessary is not necessarily consistent with the development of worker co-operatives.

The basis of personal rights in a co-operative is economic democracy — one vote per member. Economic democracy in co-operatives varies, however, between representative and participatory models. The consumer and producer co-operatives adopt a representative model. Annual general meetings of the co-operative elect a board of directors. The directors appoint the management of the co-operative. The directors and the management then represent the interests of the members. The rights of the members in between annual general meetings are strictly limited and regulated.

Workers in these co-operatives are not usually members. Membership of workers is not always encouraged and permitted. When workers are members, they are in a minority. The Co-operation Act restricts the participation of workers by prescribing that no more than one worker can be elected as a director of a co-operative.

The representative model of co-operative democracy is coming under increasing challenge, however, by worker, housing and food co-operatives. These co-operatives are interested in extending and developing co-operative democracy — based on a participatory model which maximises members' participation. The participatory model does not exclude representation. Representation, however, is a means to an end (participatory decision-making) rather than an end in itself. It is the worker co-operatives that pose the most fundamental challenge to the representative model. The challenge is simply based on the workers in the co-operatives being its members. Indeed, it could be argued that worker co-operatives are more democratic than other co-operatives because the governed (the workers) choose how they are governed. It is inappropriate for a small co-operative to establish a board of directors. The membership as a group could legally assume the responsibilities normally accorded to representative directors. It is equally questionable that a small co-operative requires a manager. Certainly, the role of manager will be more limited and the management function will become a shared responsibility. What is essential however, is the recognition that there is a management function and the membership is responsible for ensuring the meeting of this function. As a co-operative grows in size, however, there will be a need to establish a more representative structure of decision-making. A board of directors and managers may then be necessary and desirable. The democratic structure of a co-operative must reflect business realities. But, reflecting business realities does not mean abandoning a participatory philosophy and practice.

The more participatory the co-operative's decision-making, the more complex will be the process of making decisions. Participation is a learned process. It is difficult to participate effectively and relevantly. Few people have the experience of participatory decision-making. We are used to the experience and expectation of hierarchical and bureaucratic decision-making. The impact of the experience and expectation should not be dismissed. Being able to participate in decision-making requires knowledge, experience and courage. You need to be able to judge what you need to know in order to make judgements about the operations of a business. You need to be able to distinguish between causes of business problems. You need to be able to distinguish between a good manager and a bad manager. To participate effectively is both an individual and a group responsibility. Co-operative democracy, however, critically depends on the Co-operation Act.

The Co-operation Act 1981 is inappropriate for worker co-operatives. This inappropriateness is significant because the legislation provides a context for co-operative development and organizational models for co-operatives and ignores the fact that worker co-operatives are different. The problems of the Act:

- incorporation depends on the election of a board of directors of between three and seven.
- members who are unhappy with the board's decisions have no choice but to wait until the next annual general meeting.
- The accountability of the board is annual and therefore limited.
- co-operatives are not required to organize meetings of members in between annual general meetings unless this is provided for in the rules of the co-operative.
- The more traditional the co-operative the less likely that meetings of members will be organized in between annual general meetings.
- co-operative democracy is membership-based and, therefore, there is no provision for industrial democracy practices.

The legislation, then, is rigid and conservative and discriminates against co-operatives wishing to practice a real and effective form of industrial democracy. There is considerable scope to change the Co-operation Act to meet the needs of worker co-operatives. For example, the number of directors should depend on the size of the co-operative and the preference of the members. Small co-operatives should not be forced to establish a board of directors. There should be no limit on the number of worker directors. The powers of meetings of members should depend on the rules of the co-operative. Meetings of members should have the power to direct directors in between annual general meetings. The new Co-operation Act, therefore, should allow for more democracy. Worker co-operatives need to define where they are at and where they want to go and address legislative changes in these terms.

In conclusion, worker co-operatives are different and understanding this difference will determine the realization of their potential. But the difference is not necessarily understood or it is understood only too well and both explain contradictory and ambivalent attitudes and approaches to worker co-operatives.

● David Griffiths, Member, Ministerial Advisory Committee on Co-operation.